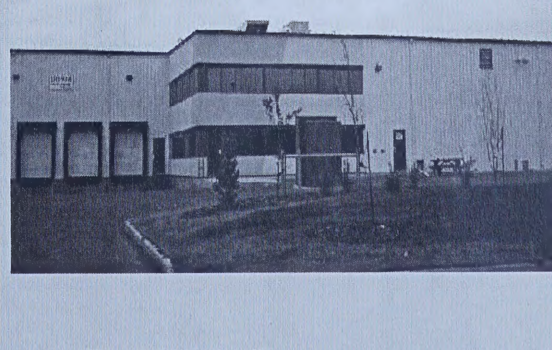
PACKAGING

ANNUAL REPORT 2006

WINNIPEG, MB & HEAD OFFICE

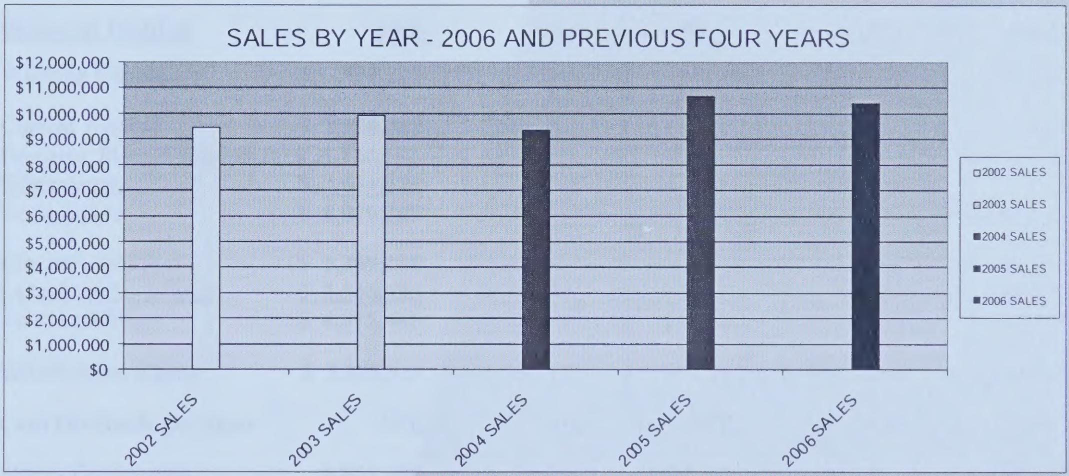


ST. ALBERT, AB

THE COMPANY

RW Packaging Ltd. owns and operates two manufacturing facilities, located in Winnipeg, Manitoba and St. Albert, Alberta, Canada. Both facilities are *ISO 9001 registered*, committed to producing high quality consumer products for major retailers, wholesalers, and brand marketers. The Winnipeg facility is *GMP & NHP* licensed and regulated by *Health Canada* for; the manufacture, packaging and labeling of Over-the-Counter ("OTC") pharmaceutical and natural health products. The Company's OTC healthcare products, including several proprietary formula's, are marketed and distributed under *DIN's* and include; topical antiseptics, laxatives, first-aid and other personal & infant care products. The St. Albert facility is an integrated blowmoulding and filling operation producing common seasonal and household products such as; bleach, fabric softener, ammonia and windshield wash anti-freeze. Approximately two-thirds of the Company's products are sold under "private label" retail brands, the balance, under the Company's brands. The Company's manufacturing specializes primarily in packaging of liquid and powder, OTC healthcare and household products for retail; however, a number of products are also packaged for industrial clients. The Company's products are sold across North America. The Company is a reporting issuer in Manitoba, Alberta and British Columbia, trading on the *TSX Venture Exchange* under the symbol RWP. All amounts are expressed in Canadian dollars.

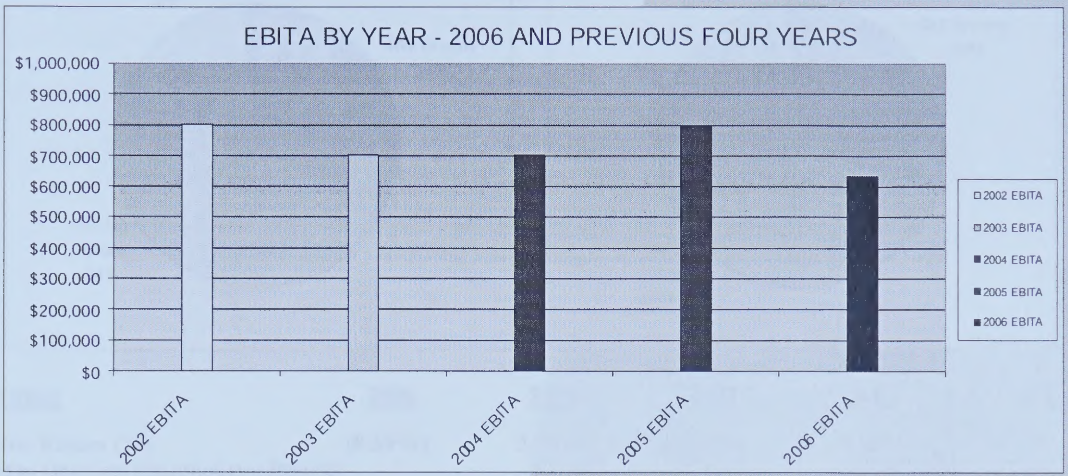
FINANCIAL HIGHLIGHTS
(Financial years ended December 31)



Operating Summary	2006	2005	2004	2003	2002
Sales	**$10,393,794**	$10,675,589	$ 9,358,905	$ 9,933,190	$ 9,455,713
Gross Profit (*1)	**$ 2,290,182**	$ 2,375,641	$ 2,129,231	$ 2,303,069	$ 2,390,218
Gross Profit (Percentage)	**22.0%**	22.3%	22.8%	23.2%	25.3%
Operating Expense	**$ 1,654,566**	$ 1,579,748	$ 1,425,898	$ 1,589,785	$ 1,584,359
EBITA (*2)	**$ 635,616**	$ 795,893	$ 703,333	$ 713,284	$ 805,859
EBIT	**$ 353,073**	$ 519,966	$ 461,865	$ 412,925	$ 530,078
Earnings before Tax	**$ 66,334**	$ 254,815	$ 137,730	$ 211,977	$ 339,205
Net Earnings (Loss)	**($ 16,466)**	$ 157,515	$ 158,330	$ 122,577	$ 221,605
Earnings (Loss) per Share – Basic & Fully Diluted	**(0.2 cents)/sh.**	2.3 cents/sh.	2.3 cents/sh.	1.8 cents/sh.	3.1 cents/sh.
Cash Flow from Operations	**$ 386,527**	$ 161,717	$ 488,230	$ 552,709	$ 786,924

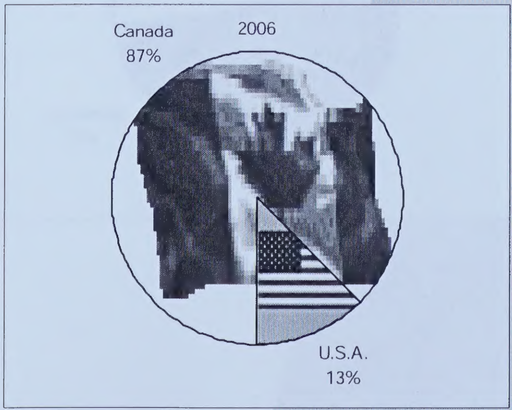
***1) GROSS PROFIT–** *Gross profit is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating gross profit may differ from other companies. Management believes that in addition to net earnings, gross profit is a useful supplemental measure as it provides investors with an indication of the profits generated on products sold to customers before corporate overhead expenses.*

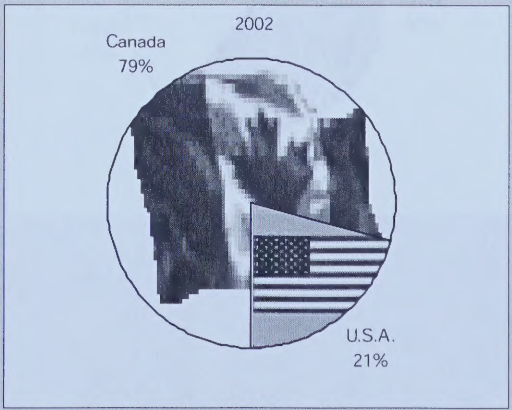
**2) EBITA – Earnings before interest, taxes, and amortization (EBITA) is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating EBITA may differ from other companies. Management believes EBITA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.*



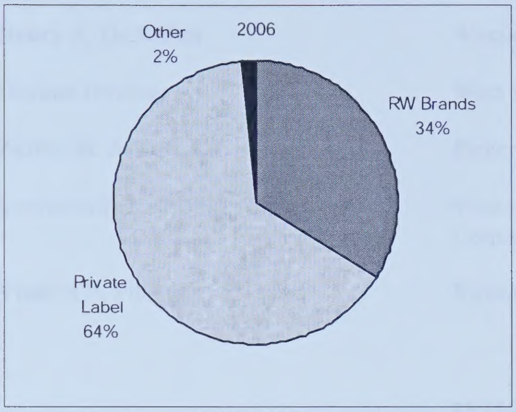
Financial Position	**2006**	**2005**	**2004**	**2003**	**2002**
Working Capital	**$ 951,112**	$ 8,997	($ 28,986)	$ 351,401	$ 356,558
Current Assets	**$ 2,320,268**	$ 2,394,711	$ 2,168,482	$ 1,941,117	$ 2,244,888
Property, Plant & Equipment	**$ 5,124,252**	$ 5,311,287	$ 5,464,242	$ 4,329,094	$ 3,913,759
Other Assets	**$ 634,879**	$ 477,935	$ 637,980	$ 844,320	$ 700,145
Total Assets	**$ 8,079,399**	$ 8,183,933	$ 8,270,704	$ 7,114,531	$ 6,858,792
Current Liabilities	**$ 1,369,156**	$ 2,385,714	$ 2,197,468	$ 1,589,716	$ 1,888,330
Long-term Liabilities	**$ 3,506,330**	$ 2,542,992	$ 2,975,524	$ 2,585,433	$ 2,110,757
Total Liabilities	**$ 4,875,486**	$ 4,928,706	$ 5,172,992	$ 4,175,149	$ 3,999,087
Shareholders Equity	**$ 3,203,913**	$ 3,255,227	$ 3,097,712	$ 2,939,382	$ 2,859,705
Cash Dividends per Share	**NIL**	NIL	NIL	NIL	NIL
Shares Outstanding	**6,855,398**	6,934,398	6,934,398	6,934,398	7,044,398
Book Value (in Cents per Share)	**46.7 cents/sh.**	46.9 cents/sh.	44.7 cents/sh.	42.4 cents/sh.	40.6 cents/sh.

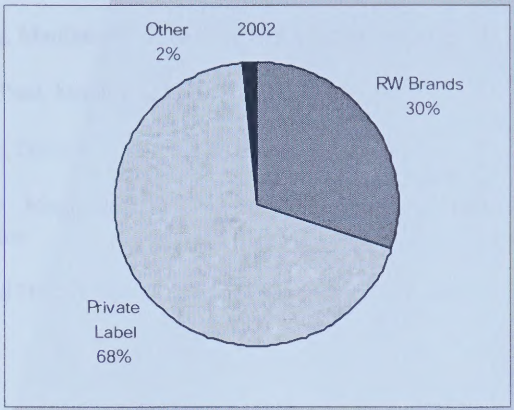
Sales by Geographic Area – 2006 compared to 2002





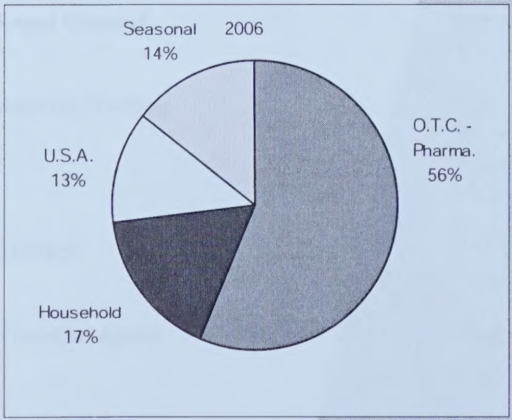
Sales by Brands – 2006 compared to 2002

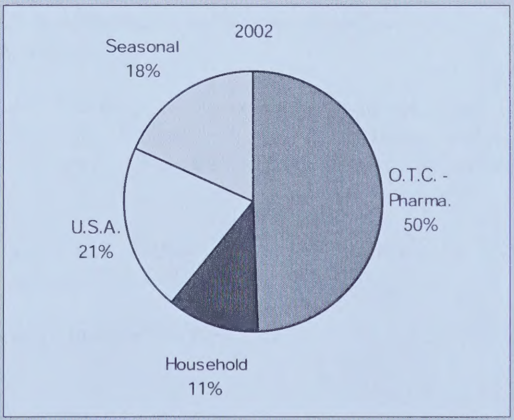




Other	2006	2005	2004	2003	2002
Net Return (%) (On Opening Shareholders Equity)	**(0.51%)**	5.08%	5.39%	4.29%	8.26%
Return on Invested Capital (ROI)	**5.09%**	7.60%	7.91%	7.39%	8.87%
EBITA Margin (%)	**6.12%**	7.46%	7.52%	7.18%	8.52%
Net Profit (%)	**(0.16%)**	1.48%	1.69%	1.23%	2.34%
Current Ratio	**1.69:1**	1.00:1	0.99:1	1.22:1	1.19:1
Total Debt to Equity Ratio	**1.52:1**	1.51:1	1.67:1	1.42:1	1.40:1
Investments in Property, Plant & Equipment	**$ 49,217**	$ 93,588	$ 1,624,151	$ 370,464	$ 169,189
Operating Efficiency (Revenue per Employee)	**$ 219,706**	$ 222,230	$ 191,902	$ 207,496	$ 198,907

Sales by Product Group – 2006 compared to 2002





RWP'S BOARD OF DIRECTORS

Henry A. De Ruiter	Winnipeg, Manitoba, President & CEO, RW Packaging Ltd.
Deanne Downey	West St. Paul, Manitoba, Retired
Zaffar M. Javaid, CA	Pickering, Ontario, Chartered Accountant
Lorrinda F. McMillan, GBA	Winnipeg, Manitoba, President, Brereton House Marketing Corporation
Vincent P. Pileggi	Richmond Hill, Ontario, President, Enroute Imports Inc.

RWP'S CORPORATE OFFICERS

Henry A. De Ruiter	President & CEO
Bernice V. Ryzowski	Vice President, Finance & Procurement

SHAREHOLDER INFORMATION

Chairman of the Board	Henry De Ruiter
Audit Committee	Zaffar Javaid (Chair), Lorrinda McMillan, Vincent Pileggi
Compensation Committee	Lorrinda McMillan (Chair), Zaffar Javaid, Vincent Pileggi
Auditors	Scarrow & Donald LLP, Chartered Accountants, Winnipeg, Manitoba, member firm of ***Pannel Kerr Forster (PKF)*** International Association BV
Legal Counsel	Campbell, Marr, Barristers and Attorneys-at-Law, Winnipeg, Manitoba
Annual Meeting	The Annual Meeting of Shareholders will be held on Thursday, June 21, 2007 at 1:30 p.m. at the Hilton Suites – Winnipeg Airport, 1800 Wellington Avenue, Winnipeg, Manitoba.
Listings	RW Packaging Ltd. shares are listed as RWP on the TSX Venture Exchange (TSX-V).
Transfer Agent	Computershare Investor Services, Inc.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

April 12, 2007

Dear fellow shareholders,

2006 was a disappointing year for RW Packaging, as a number of factors negatively impacted the Company's overall performance and overshadowed the progress and achievements made by the Company's dedicated employees.

Despite continued growth in the Company's core product group, O.T.C. pharmaceutical's, a decrease in sales of household products, and sales to the U.S. due to a change in currency exchange rates, resulted in the Company experiencing an overall decline in sales of 2.6%. A product recall initiated during the first half of the year, and increased expenses for public company administration had a further negative impact on operating results, reducing earnings before interest and taxes (EBIT) 32.1 per cent compared to the prior year. While the Company, despite these negative factors still reported an operating profit, the Company's decision to refinance its interest bearing debt and a change in estimate of the Company's future tax benefit due to changes in federal and provincial income taxes and rates that have been substantively enacted, resulted in the Company reporting a loss of $16,466 for the year.

In June, 2006, the Company fulfilled two significant objectives; first, that it entered into a "Trade-Secret Licensing Agreement" with another Canadian private-label pharmaceutical manufacturer which the Company hopes will accelerate it's development and market entry of new products, and second, a $3.6 million refinancing of the Company's interest-bearing debt which resulted in a significant improvement in the Company's overall financial position and liquidity. Although the latter as previously mentioned, had a negative impact on earnings for 2006, the improved terms, conditions and pricing will yield significant interest expense savings in future periods compared to the prior financing agreement.

In October, 2006, the Company further improved its financial position entering into a $1.5 million financing agreement with the *Royal Bank of Canada* providing the Company additional financial resources.

In November, 2006, the Company commenced a normal course issuer bid for the purchase of up to 346,718 or just less than 5% of its common shares for cancellation. The Company initiated the bid as it believed that its common shares were trading in a price range which did not adequately reflect their value and that the purchase of its common shares would enhance shareholder value in general. The Company also commenced its first production of a new medicated skin cream, which had been in development for the past two years and is being marketed under the trademark "Protecten". Sales of the product to a major national retailer commenced in January, 2007 and initial sales results are encouraging.

Looking forward to 2007, our dedicated employees remain our greatest asset. Their enthusiasm, teamwork, and commitment to our loyal customers, along with the initiatives we have and continue to take give me great optimism our Company will deliver growth, both in sales and earnings for 2007 and will ensure RW's continued growth and prosperity into the future.

Sincerely,

(Signed)

Henry A. De Ruiter
President & CEO

Winnipeg, Manitoba, Canada

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

(For the Three (3) Months and Year Ended December 31, 2006)

NOTICE TO READER

This Management Discussion and Analysis ("MD&A") of RW Packaging Ltd. (the "Company") provides analysis of the Company's performance, financial condition, and results of operations for the unaudited fourth quarter and audited year ended December 31, 2006, as well as, forward-looking statements regarding possible future performance. The following information should be read in conjunction with the accompanying unaudited interim and audited annual financial statements and notes to the audited annual financial statements for the year ended December 31, 2006. Interim "Fourth Quarter" information in this MD&A is unaudited and is shaded to differentiate it from the annual information. This MD&A is dated and current as of March 06, 2007. All amounts are expressed in Canadian dollars.

OVERVIEW

RW Packaging Ltd. owns and operates two manufacturing facilities, located in Winnipeg, Manitoba and St. Albert, Alberta, Canada. Both facilities are *ISO 9001 registered*, committed to producing high quality consumer products for major retailers, wholesalers, and brand marketers. The Winnipeg facility is *GMP & NHP* licensed and regulated by *Health Canada* for; the manufacture, packaging and labeling of Over-the-Counter ("OTC") pharmaceutical and natural health products. The Company's OTC healthcare products, including several proprietary formula's, are marketed and distributed under *DIN's* and include; topical antiseptics, laxatives, first-aid and other personal & infant care products. The St. Albert facility is an integrated blowmoulding and filling operation producing common seasonal and household products such as; bleach, fabric softener, ammonia and windshield wash anti-freeze. Approximately two-thirds of the Company's products are sold under "private label" retail brands, the balance, under the Company's brands. The Company's manufacturing specializes primarily in packaging of liquid and powder, OTC healthcare and household products for retail; however, a number of products are also packaged for industrial clients. The Company's products are sold across North America. The Company is a reporting issuer in Manitoba, Alberta and British Columbia, trading on the *TSX Venture Exchange* under the symbol RWP.

Caution Regarding Forward Looking Statements

Certain statements made in this MD&A may contain forward-looking statements, including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Such forward-looking statements represent our current expectations, beliefs, intentions and plans, based on information as at the date of this report, and are not guarantees of future performance. They involve risks, uncertainties and assumptions and, while the Company believes that its expectations are reasonable, the Company's actual results could differ materially from those anticipated in these forward-looking statements. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected results; competitive conditions in which the Company participates; general economic conditions and normal business uncertainty; seasonal weather patterns; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its customers, suppliers or financial lenders; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company. The Company intends the forward-looking statements to speak only as of the time first made and, unless otherwise required by applicable securities law, disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance upon forward-looking statements.

Responsibility for Financial Statements

The information provided in this report, including the accompanying interim and annual financial statements, is the responsibility of management. In the preparation of these statements in accordance with Canadian generally accepted accounting principles for interim and annual financial statements, estimates are sometimes necessary to make a determination of future values for certain assets and liabilities. Future income taxes, scientific research tax credits recoverable ("SR&ED"), amortization rates, capital assets, intangible assets and the recoverable amounts for inventories are the more significant items subject to estimates in these interim and annual financial statements. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying interim and annual financial statements. The Company's auditors have audited only the accompanying annual financial statements.

Disclosure Controls and Procedures

As of December 31, 2006, the Company's CEO and V.P. of Finance and Procurement evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls") as defined under rules adopted by the Canadian Securities Administrators.

Disclosure controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is made known to us by others within the Company in order to ensure it is; recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and V.P. of Finance and Procurement, as appropriate, to allow timely decisions regarding required disclosure.

The Company's CEO and V.P. of Finance and Procurement, does not expect that the Company's disclosure controls will prevent or detect all error or fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company are detected.

Based on the evaluation of disclosure controls, the CEO and V.P. of Finance and Procurement have concluded that, subject to the inherent limitations noted above, the Company's disclosure controls are adequate and effective in providing reasonable assurance that material information relating to the Company is made known to us by others within the Company.

Internal Control over Financial Reporting

As of December 31, 2006, the Company's CEO and V.P. of Finance and Procurement are responsible for the design of internal control over financial reporting ("Internal Control over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. The Company's internal control over financial reporting is designed to; provide reasonable assurance regarding the reliability of financial reporting, ensure the Company's assets are safeguarded, and to facilitate the preparation of relevant and timely information for external purposes in accordance with Canadian generally accepted accounting principles (cGAAP).

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There were no changes in the Company's internal control over financial reporting that have occurred during the three (3) months ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Non-GAAP Accounting Definitions used in this MD&A

GROSS PROFIT – Gross profit is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating gross profit may differ from other companies. Management believes that in addition to net earnings, gross profit is a useful supplemental measure as it provides investors with an indication of the profits generated on products sold to customers before corporate overhead expenses.

EBITA – Earnings before interest, taxes, and amortization (EBITA) is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating EBITA may differ from other companies. Management believes EBITA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.

OVERALL PERFORMANCE

The Company reported a net loss for the year ended December 31, 2006 of $16,466 (or 0.2 cent per share) on sales of $10,393,794 compared to net earnings of $157,515 (or 2.3 cents per share) on sales of $10,675,589 in 2005.

The principal factors that caused the 2.6 per cent decrease in overall comparative sales for the year were:

- Domestic sales – decreased 1.9 per cent to $9,086,311 (2005 – $9,258,962) due to lower sales of household product's. A promotion by a customer launching a new household product in 2005 generating sales of approximately $380,000 was not repeated in the current year.
- U.S. sales – decreased 7.7 per cent to $1,307,483 (2005 – $1,416,627) due to a change in currency exchange rates. Prior to conversion into Canadian dollars, the Company's reporting currency, sales to the U.S. increased 0.3 per cent.

The principal factors that caused the decrease in comparative net earnings for the year were:

- a reduction in gross profit of $44,214 due to a product recall during the year;
- an increase in warehouse, selling and administrative expense of $74,818 due primarily to an increase in building operating and public company administration expenses;
- additional interest and deferred charge expenses totaling $49,432 due to the early repayment of long-term debt on June 30, 2006, and;
- a change in estimate of the Company's future tax benefit due to changes in federal and provincial income taxes and rates that have been substantively enacted.

Other than the increase in warehouse, selling and administration expense, the variation in year-over-year comparative net earnings were the result of items, which management does not expect to occur annually. In particular, the increase in interest and deferred charge expenses for the year, which although decreased earnings for the current year, improved the Company's overall financial condition and liquidity and will result in a reduction in interest expense in future periods.

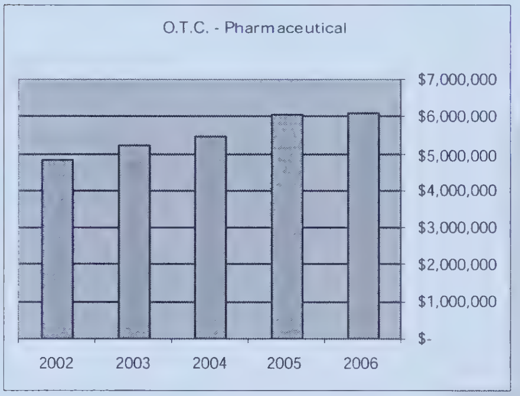
During 2006, the Company achieved several important objectives.

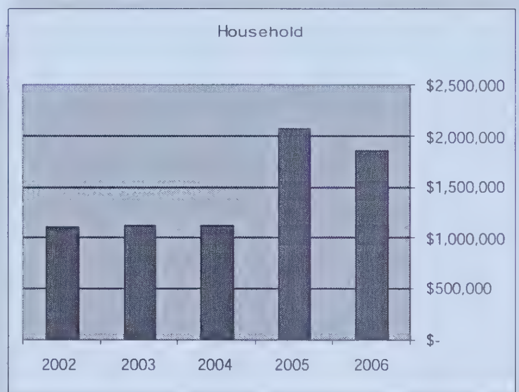
- On June 20th, 2006 the Company signed a "Trade-Secret Licensing Agreement" (the "Agreement") with a major Canadian Private-Label Pharmaceutical Manufacturer (the "Licensor"). The Agreement granted the Company exclusive use of the Licensor's "trade-secrets" pertaining to; formula's, technology, packaging specifications, and manufacturing methods of several of the Licensor's Over-the-Counter (OTC) Pharmaceutical Products (the "Products"), and provides the Company with exclusive rights to manufacture, market, and distribute the products in Canada. In exchange, the Company will pay the Licensor a "License Fee" calculated as a fixed percentage of all sales, if any, generated from the products. This Agreement is expected to; significantly shorten the Company's development cycle to market and sell additional OTC products, reduce research, development and regulatory expense, as well as, hasten expansion of our product offerings to customers within the Company's primary product segment. An assessment of the products is currently underway, including; a technical and regulatory review, manufacturing and cost evaluation, as well as, a market evaluation and gauging customer interest, to assess the future sales and earnings potential from these products, if any, that could be generated.
- The Company completed a $3,600,000 refinancing to significantly improve the Company's overall financial position and liquidity, followed by an additional $1,500,000 in combined credit facilities, consisting of an operating line of credit and term loan available for general working capital needs and to provide the Company with increased financial flexibility. Both agreements provided the Company with improved terms, conditions and pricing.

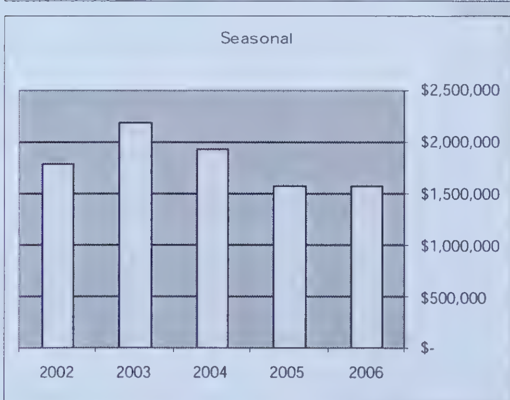
- In November, 2006 the Company commenced initial production of its new "Protecten" medicated skin cream, being marketed under "private label" by a major national retailer. Sale of the product commenced in January, 2007.

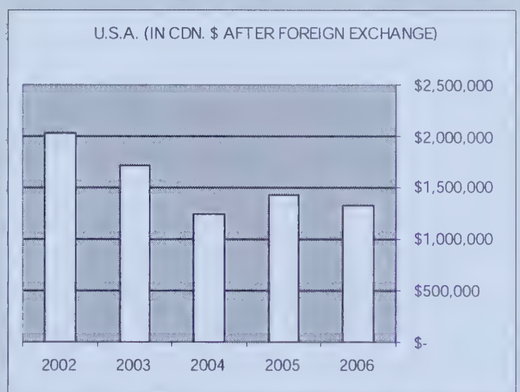
The Company's strategy continues to focus on growth and expansion of its core product segment, specifically over-the-counter ("O.T.C") pharmaceutical and household consumer products, which provide higher gross margins and more stable sales and cost-of-goods than the Company's seasonal and U.S. products, which are susceptible to changes in weather, currency exchange rates and in the cost of commodities purchased for raw materials. The Company's four product groups have generated average compound growth over the last four (4) years of; O.T.C Pharma. – 6.5 per cent, Household – 17.0 per cent, Seasonal – a decline of (3.1) per cent, and U.S. – a decline of (8.7) per cent. The decline in U.S. sales since 2002 is primarily attributable to changes in currency exchange rates. Average compound growth overall for the last four years has been 2.8 per cent. Going forward, the Company's sales growth will increasingly be dependent on; its investment in resources to develop new products, as well as, its ability to expand into markets outside of North America.

The following graphs show the Company's sales trends by product group for the last five years.









OUTLOOK

Barring any unforeseen events, the Company expects to deliver growth in sales and earnings in 2007 resulting from:

- Sales generated from the new "Protecten" medicated skin cream, being marketed under "private label" to a major national retailer, which commenced in January, 2007;
- Organic growth resulting from new store openings by several of the Company's major retail customers;
- Selling price adjustments which have recently been implemented, and;
- A reduction in bank charges and interest expense of approximately $67,000 or 23.0 per cent from 2006, as a result of lower borrowing costs.

SELECTED ANNUAL INFORMATION

Fiscal Years ended December 31, *(All amounts are expressed in Canadian dollars)*	2006	2005	2004
Sales (1)	**$10,393,794**	**$10,675,589**	**$ 9,358,905**
Gross Profit (2)	$ 2,290,182	$ 2,375,641	$ 2,129,231
Operating Expenses	$ 1,654,566	$ 1,579,748	$ 1,425,898
EBITA (2)	**$ 635,616**	**$ 795,893**	**$ 703,333**
Amortization	$ 282,543	$ 275,927	$ 241,468
Bank Charges & Interest	$ 286,739	$ 265,151	$ 213,455
Relocation/Disposition Expenses	$ -	$ -	$ 110,680
Earnings before Tax	**$ 66,334**	**$ 254,815**	**$ 137,730**
Net Earnings (Loss)	**($ 16,466)**	**$ 157,515**	**$ 158,330**
Net Earnings (Loss) per share – basic & fully diluted (expressed in cents per share)	**(0.2 cents)/share**	**2.3 cents/share**	**2.3 cents/share**
Cash Flow from operations	$ 386,527	$ 161,717	$ 488,230
Financial Position			
Working Capital	$ 951,112	$ 8,997	($ 28,986)
Current Assets	$ 2,320,268	$ 2,394,711	$ 2,168,482
Property, Plant and Equipment	$ 5,124,252	$ 5,311,287	$ 5,464,242
Other Assets	$ 634,879	$ 477,935	$ 637,980
Total Assets	$ 8,079,399	$ 8,183,933	$ 8,270,704
Current Liabilities	$ 1,369,156	$ 2,385,714	$ 2,197,468
Long-term Liabilities	$ 3,506,330	$ 2,542,992	$ 2,975,524
Total Liabilities	$ 4,875,486	$ 4,928,706	$ 5,172,992
Shareholders Equity	$ 3,203,913	$ 3,255,227	$ 3,097,712
Cash Dividends per share, common	Nil	Nil	Nil
Shares Outstanding	6,855,398	6,934,398	6,934,398

(1) see "Changes in Accounting Policies including Initial Adoption".

(2) see "Non-GAAP Accounting Definitions"

The selected annual information noted above has been prepared by management and based upon Canadian generally accepted accounting principles (cGAAP) consistent with those used and described in the audited annual financial statements. The figures presented for a fiscal year are consistent with and reconciled to those reported in the Company's audited annual financial statements for those year(s) ended. An explanation of any period-to-period variations including any resulting from, discontinued operations or changes in accounting policies can be found in other sections of this report.

RESULTS OF OPERATIONS

Sales for the three (3) months ended December 31, 2006 were $2,561,176 (2005 – $2,574,429), a decrease of 0.5 per cent. Domestic sales increased 2.0 per cent to $2,518,943 (2005 – $2,469,953) primarily due to higher sales of seasonal and household products. U.S sales declined 59.6 per cent to $42,232 (2005 – $104,476), during the period.

Sales for the year ended December 31, 2006 were $10,393,794 (2005 – $10,675,589), a decrease of 2.6 per cent. Domestic sales decreased 1.9 per cent to $9,086,311 (2005 – $9,258,962), while U.S sales declined 7.7 per cent to $1,307,483 (2005 – $1,416,627).

Gross profit for the quarter of $588,488 (2005 – $664,447) decreased 2.8 percentage points, to 23.0 per cent of sales, compared to 25.8 per cent of sales for the same period in 2005. A shift in product mix and higher comparable cost-of-goods were the primary factors for the decrease in gross profit for the period.

Gross profit for the year ended December 31, 2006 of $2,290,182 (2005 – $2,375,641) decreased 0.22 percentage points, to 22.03 per cent of sales, compared to 22.25 per cent of sales in 2005. A reduction in gross profit of $44,214 due to a product recall during the year was the primary cause for the decrease in percentage gross profit. Excluding the impact of the product recall, gross profit would have been 22.46 per cent of sales, an increase of 0.21 percentage points over the prior year.

Warehouse, selling and administrative expenses were $448,218 (2005 – $441,210) for the three months ended December 31, 2006, an increase of 1.6 per cent. Warehouse, selling and administrative expenses for the year ended December 31, 2006 were $1,654,466 (2005 – $1,579,748), an increase of 4.7 per cent. A summary breakdown of the Company's warehouse, selling and administrative expenses is as follows:

	Three Months ended December 31, 2006			Year ended December 31, 2006		
	2006	2005	% Change	2006	2005	% Change
Warehouse	$ 132,721	$ 137,243	(3.3%)	$ 553,476	$ 497,159	+11.3%
Selling	$ 62,095	$ 67,845	(8.5%)	$ 236,991	$ 238,803	(0.8%)
General & Administration	$ 57,846	$ 50,892	+13.7%	$ 205,074	$ 202,393	+1.3%
Head Office	$ 151,189	$ 163,036	(7.3%)	$ 546,233	$ 557,433	(2.0%)
Public Company Administration	$ 44,367	$ 22,194	+99.9%	$ 112,792	$ 83,960	+34.3%
Total Expenses	**$ 448,218**	**$ 441,210**	**+1.6%**	**$1,654,566**	**$1,579,748**	+4.7%

Increases in utilities, equipment repairs and maintenance, and public company administration were the primary causes for the overall increase compared to the year prior. Warehouse, selling and administrative expenses when expressed as a percentage of sales were 17.5 per cent (2005 – 17.1 per cent) for the quarter, and 15.9 per cent (2005 – 14.8 per cent) for the year ended December 31, 2006.

As a result of the reduction in gross profit and increase in warehouse, selling and administration expense, EBITA (Earnings before Interest, Taxes and Amortization) for the year decreased $160,277 or 20.1 percent to $635,616 (2005 – $795,893).

Amortization expense was $65,372 (2005 – $68,982) for the quarter, and $282,543 (2005 – $275,927) for the year ended December 31, 2006, respectively. The increase in amortization expense for the year is due to $18,569 of additional deferred charges for the early repayment of long-term debt.

Bank charges and interest expense for the quarter decreased 18.7 per cent to $56,692 (2005 – $69,705) due to the lower borrowing costs under the new mortgage(s) completed June 30, 2006. Bank charges and interest expense for the year ended December 31, 2006 increased 8.1 per cent, to $286,739 (2005 – $265,151) due to $30,863 of additional interest expense for the early repayment of long-term debt.

The Company's statutory tax rate for 2006 was 35.2 per cent (2005 – 35.6%) however; the effective rate in 2006 was 37.1 per cent (2005 – 38.2%), due to the effect of items that are not deductible for tax purposes. Income taxes that would otherwise have been payable of $24,600 (2005 – $97,300) were used to reduce the Company's future income tax benefit.

Changes in Income Taxes and Rates

Federal and provincial governments announced during the year a number of changes to income taxes and rates. As these changes are considered to have been substantively enacted, the Company made a change in estimate of its future tax benefit amounting to $58,200 (2005 – NIL) in the fourth quarter of 2006, most of which relates to future income taxes. The adjustment decreased earnings by $58,200 for the quarter and year ended December 31, 2006.

As with all estimates, it is possible that changes in future conditions could require further changes in the recognized amounts for income taxes. Should a change be required it would be accounted for in the period in which those amounts became known. The Company follows the liability method of accounting for income taxes, and has a future income tax benefit arising from undepreciated capital cost (UCC) in excess of net book value (NBV), amounts deductible for tax purposes in future periods and losses available to be carried forward to the extent they are likely to be realized that reduce any taxes, which would otherwise be payable. Accordingly, management believes that EBITA, earnings before tax, and cash flow from operations are more useful measures of the Company's financial performance, however investors should be cautioned that these measures should not be construed as an alternative to net income determined in accordance with cGAAP.

SUMMARY OF QUARTERLY RESULTS

Summary results for each of the eight most recently completed quarters:

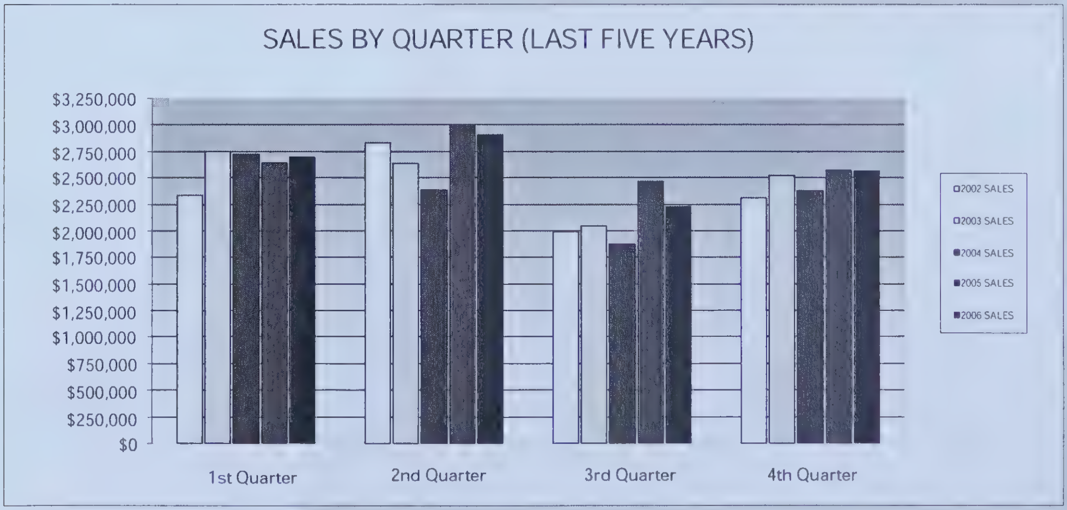
	Q4-2006	Q3-2006	Q2-2006	Q1-2006
Sales (1)	$2,561,176	$2,226,997	$2,910,322	$2,695,299
EBITA (2)	$ 140,270	$ 186,073	$ 161,852	$ 147,421
Net Earnings (Loss)	($ 38,294)	$ 46,724	($ 31,537)	$ 6,641
Net Earnings (Loss) per share – basic & fully diluted (expressed in cents per share)	(0.5 cent/share)	0.7 cent/share	(0.5 cent/share)	0.1 cent/share

	Q4-2005	Q3-2005	Q2-2005	Q1-2005
Sales (1)	$2,574,429	$2,467,564	$2,990,155	$2,643,441
EBITA (2)	$ 223,237	$ 198,306	$ 200,907	$ 173,443
Net Earnings	$ 48,550	$ 39,005	$ 40,893	$ 29,067
Net Earnings per share – basic & fully diluted (expressed in cents per share)	0.7 cent/share	0.6 cent/share	0.6 cent/share	0.4 cent/share

(1) see "Changes in Accounting Policies including Initial Adoption".

(2) see "Non-GAAP Accounting Definitions"

The unaudited summary of quarterly results has been prepared by management and is based upon Canadian generally accepted accounting principles (cGAAP) consistent with those used and described in the audited annual financial statements. The combined total of each of the quarterly figures presented for a fiscal year is consistent with and reconciled to those reported in the Company's audited annual financial statements.



Historically, the Company's sales are greater in the first six months of the year than in the last six months, with typically the highest sales occurring during the second quarter and the lowest sales being experienced during the third quarter.

LIQUIDITY & CAPITAL RESOURCES

Prior to changes in working capital the Company generated cash from operations of $83,451 (2005 – $162,293) for the quarter and $299,842 (2005 – $539,503) for the year ended December 31, 2006, respectively. The decrease in cash flow from operations prior to changes in working capital of $239,661 for the year is primarily attributable to the lower reported earnings and additions to deferred charges relating to the refinancing completed earlier in the year. After providing for changes in working capital, which generated cash of $168,291 (2005 – an increase in cash used of $139,489) for the quarter ended December 31, 2006, cash flow from operating activities was $251,742 compared to $22,804 for the same period in 2005. After providing for changes in working capital, cash flow from operating activities for the year ended December 31, 2006, increased to $386,527 (2005 – $161,717) compared to the year prior, attributable to a decrease in cash used to finance operating activities of $86,685 (2005 – an increase in cash used of $377,786).

During the year ended December 31, 2006, the Company made investments in property, plant and equipment totaling $49,217 (2005 – $93,588), of which $40,723 (2005 – $52,232) were investments in computers, lab equipment, process equipment and tankage, and $8,494 (2005 – $41,356) were building and property improvements. Investments in property, plant and equipment made during the current year were funded from operations. Management has budgeted approximately $120,000 for capital expenditures in 2007, to be funded from cash generated by operations.

On June 30, 2006, the Company refinanced all of its previous current and long-term debt obligations from proceeds of new mortgage(s) totaling $3,600,000, on the Company's properties. As a result, the Company's financial position and liquidity have significantly improved, in addition to, providing the Company with a reduction in borrowing costs. For the year, financing activities consumed cash of $11,332 (2005 – consumed cash of $185,532).

As of December 31, 2006 the Company had cash of $183,943 (2005 – $NIL), and $NIL (2005 – $717,035) in bank indebtedness, under its operating facility. At year-end, the Company had long-term debt totaling $3,574,040 (2005 – $2,975,524), comprised of two mortgages and a capital lease obligation of which $67,710 (2005 – $432,532) was current.

At December 31, 2006, the Company had working capital available of $951,112 compared to $8,997 at the end of 2005. The Company's working capital ratio was 1.69:1 compared to 1.00:1 at the end of 2005 due primarily to; the elimination of bank indebtedness and reduction in current long-term debt resulting from the aforementioned refinancing. Total liabilities compared to the prior year decreased 1.1 per cent to $4,875,486 from $4,928,706. At year-end, the Company's debt to equity ratio was 1.52:1 (2005 – 1.51:1). For the year, cash turns (the sum of accounts receivable and inventory turns) were 82.10 days (2005 – 78.69 days). The decrease in cash turns was the result of higher inventories at December 31, 2006 compared to the year prior.

On October 13, 2006 the Company entered into a new financing agreement (the "Agreement") with the *Royal Bank of Canada* for up to $1.5 million in combined credit facilities, consisting of an operating facility and term loan. The Agreement provided the Company with improved terms, conditions and pricing. The financing agreement is available for general working capital needs and to provide the Company with increased financial flexibility. The financing agreement contains customary covenants. At year-end, both credit facilities remained undrawn.

Management believes RW Packaging is in a position to meet all current and anticipated cash requirements for existing operations, including planned capital expenditures, as well as, debt repayment obligations through cash flow generated from operations and financing and credit arrangements it has entered into. Management continually monitors the Company's financial requirements, and may from time-to-time be exploring financing options should circumstances or requirements change necessitating additional capital, or to improve the Company's overall financial position in general.

Normal Course Issuer Bid

On November 1, 2006, the Company commenced a **normal course issuer bid** for the purchase of up to 346,718 of its common shares for cancellation, being just less than 5% of the 6,934,398 common shares currently issued and outstanding. The bid will end no later than October 31, 2007. The Company initiated

the normal course issuer bid as it believes that its common shares were trading in a price range which did not adequately reflect their value and that the purchase of the common shares would enhance shareholder value in general. Purchases pursuant to the bid are being made by Canaccord Capital Corporation on behalf of the Company through the facilities of the *TSX Venture Exchange*. Between November 1, 2006 and December 31, 2006, the Company purchased 79,000 shares at an average cost of $0.4186 per share plus brokerage fees, for a total cost of $34,848. Subsequent to year-end, and up to the date of this report the Company purchased a further 25,000 shares at an average cost of $0.42 per share. The normal course issuer bid is being funded from cash from operations.

For the year ended December 31, 2006, shareholder's equity decreased 1.6 per cent to $3,203,913 or 46.7 cents per share from $3,255,227 or 46.9 cents per share as a result of, the $16,466 loss reported for the year and the $34,848 invested to repurchase the Company's shares.

OFF-BALANCE SHEET ARRANGEMENTS & TRANSACTIONS WITH RELATED PARTIES

The Company has no off-balance sheet financial commitments other than commitments for operating leases of office equipment and a vehicle, which have been disclosed in the notes to the December 31, 2006 audited financial statements. The Company has no material transactions with related parties.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Effective January 1, 2006, in accordance with the recommendations of the CICA handbook, the Company adopted EIC – 156, which requires that all cash considerations provided to customers, such as rebates and cash discounts, be accounted for as a reduction of sales. The adoption of EIC – 156 resulted in a reduction of sales and cost-of-goods sold of $72,602 (2005 – $67,930) for the three months ended December 31, 2006, and $282,025 (2005 – $283,238) for the year ended December 31, 2006. Comparative figures in the accompanying audited annual financial statements and in this MD&A have been restated to conform to the current year's presentation. The adoption of this change in accounting policy had no effect on income.

Effective January 1, 2007, the Company prospectively adopted recommendations of the Canadian Institute of Chartered Accountants ("CICA") pertaining to financial instruments, hedging and comprehensive income. These recommendations require certain financial instruments and hedge positions to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income. Financial instruments designated as "held-for-trading" and "available-for-sale" will be carried at their fair value while financial instruments classified as "loans and receivables" and "held-to-maturity" will be carried at their amortized cost. All hedge positions will be carried on the balance sheet at their fair value. Changes in value of fair value hedges will be recognized in earnings as they occur. The Company is unable to determine at this time the impact of adopting these recommendations on earnings or assets of the Company.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of: Accounts Receivable, Accounts Payable, Capital Lease Obligations, and Current and Long-Term Bank Indebtedness. Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are fixed and close to market rates.

The Company has adopted credit policies to address credit risk on accounts receivable from customers, which include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

The Company sells its products, as well as, purchases goods in both Canadian and U.S. currencies. As the Company's sales and purchases in U.S. dollars historically have approximated each other, management believes the Company is reasonably protected from risks due to currency exchange fluctuations. The Company historically has not engaged in any hedging activities or used foreign exchange contracts to manage risk, but may consider them in the future if the need arises or circumstances change.

The Company had a foreign exchange loss of $7,696 (2005 – loss of $1,609) for the three months ended December 31, 2006, and a loss of $5,444 (2005 – a gain of $10,005) for the year ended December 31, 2006.

OTHER

This MD&A accompanying the audited annual financial statements, as well as, additional information relating to the Company is available online at www.sedar.com and the Company's website at www.rwpackaging.com.

Outstanding Share Data	2006	2005	2004
Shares Outstanding (Common), Opening	6,934,398	6,934,398	6,934,398
Shares Repurchased for cancellation prior to Dec. 31, 2006	79,000*	-	-
Shares Outstanding (Common), Closing	6,855,398	6,934,398	6,934,398

**(The Company commenced a Normal Course Issuer Bid November 1, 2006, a further 25,000 shares were repurchased for cancellation between January 1 and March 6, 2007)*

The Company does not engage any outside firm, party or individual(s) to act on its behalf in the context of "investor relations" or "promotions" as defined by the Securities Act. Management prepares all investor relation's activities such as news releases, quarterly and annual financial reports and shareholder information.

RW PACKAGING LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 – Five Donald Street
Winnipeg, Manitoba R3L 2T4
Business: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

February 12, 2007

AUDITORS' REPORT

To the Shareholders of
RW Packaging Ltd.:

We have audited the balance sheets of RW Packaging Ltd. as at December 31, 2006 and 2005 and the statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP
Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

RW PACKAGING LTD.

BALANCE SHEET

	December 31 2006	December 31 2005
ASSETS		
Current assets:		
Cash	$ 183,943	$ -
Accounts receivable (Note 2)	865,350	1,025,154
Inventories	1,148,140	992,372
Prepaid expenses	71,935	89,285
Future income taxes (Note 3)	50,900	287,900
	2,320,268	2,394,711
Property, plant and equipment (Note 4)	5,124,252	5,311,287
Trademark rights (Note 5)	40,664	60,996
Financing costs	46,587	23,511
Future income taxes (Note 3)	533,900	379,700
SR&ED investment tax credits (Note 3)	13,728	13,728
	$ 8,079,399	$ 8,183,933
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 6)	$ -	$ 717,035
Accounts payable	1,301,446	1,236,147
Current portion of long-term debt	66,922	423,216
Current portion of obligation under capital lease	788	9,316
	1,369,156	2,385,714
Long-term debt (Note 7)	3,506,330	2,542,204
Obligation under capital lease (Note 8)	-	788
	4,875,486	4,928,706
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	1,276,821	1,291,535
Retained earnings	1,927,092	1,963,692
	3,203,913	3,255,227
	$ 8,079,399	$ 8,183,933

APPROVED BY THE BOARD:

_______________ **Director**

_______________ **Director**

RW PACKAGING LTD.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended December 31 2006	2005
Sales	$ 10,393,794	$ 10,675,589
Cost of goods sold	8,103,612	8,299,948
	2,290,182	2,375,641
Warehouse, selling and administrative	1,654,566	1,579,748
Earnings before interest, taxes, and amortization (EBITA)	635,616	795,893
Amortization:		
Property, plant and equipment	236,251	245,710
Trademark rights	20,332	20,332
Deferred charges	25,960	9,885
	282,543	275,927
Earnings before interest and taxes (EBIT)	353,073	519,966
Interest:		
Bank charges and interest	33,912	44,588
Interest on long-term debt	252,827	220,563
	286,739	265,151
Earnings for the year before income taxes	66,334	254,815
Income taxes (Note 3):		
Future income taxes	24,600	97,300
Change in estimate of future income taxes	58,200	-
	82,800	97,300
Net earnings (loss) for the year	(16,466)	157,515
Excess consideration on shares purchased for cancellation	(20,134)	-
Retained earnings, beginning of year	1,963,692	1,806,177
Retained earnings, end of year	$ 1,927,092	$ 1,963,692
Earnings per share - basic and diluted	$ (0.00)	$ 0.02

RW PACKAGING LTD.

STATEMENT OF CASH FLOW

	Year ended December 31 2006	2005
Funds provided by (used in):		
Operating activities-		
Net earnings for the period	$ (16,466)	$ 157,515
Non-cash items:		
Amortization	282,543	275,927
Amortization of label artwork	-	21,657
Future income taxes	82,800	97,300
Manitoba M&P investment tax credits	-	832
SR&ED investment tax credits	-	(13,728)
Additions to deferred charges	(49,035)	-
Cash flow from operations before change in working capital	299,842	539,503
Change in working capital:		
Accounts receivable	159,804	(311,218)
Inventories	(155,768)	140,269
Prepaid expenses	17,350	(30,680)
Accounts payable	65,299	(176,157)
	86,685	(377,786)
	386,527	161,717
Investing activities-		
Purchase of property, plant and equipment	(49,217)	(93,588)
	(49,217)	(93,588)
Financing activities-		
Repayment of long-term debt	(2,992,168)	(411,217)
Repayment of obligation under capital lease	(9,316)	(9,315)
Proceeds of long-term debt	3,600,000	-
Net change in line of credit	(575,000)	235,000
Purchase of shares	(34,848)	-
	(11,332)	(185,532)
Change in cash	325,978	(117,403)
Cash, beginning of year	(142,035)	(24,632)
Cash, end of year (Note 6)	$ 183,943	$ (142,035)
Interest paid	$ (269,252)	$ (265,151)
Income taxes paid	$ -	$ -

1. **Summary of significant accounting policies:**

The Company owns and operates two manufacturing facilities, located in Winnipeg, Manitoba and St. Albert, Alberta. Both facilities are ISO 9001 registered, committed to producing high quality consumer products for major retailers, wholesalers, and national brand marketers. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The financial statements include the following significant accounting policies:

a) Accounting estimates-

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

b) Financial instruments-

Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are close to market rates. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. Fair value is estimated based on market information available to the Company. If such information is not available, fair value is estimated using assumptions about the amount and timing of future cash flows and using discount rates that reflect credit risk. The estimate of fair value at year-end may not represent fair values at any other date. The assumptions and methods used significantly affect fair value. The determination of fair value is also affected by the use of judgement and by uncertainty. Changes in the interest rate environment and investment risk in one or more of the markets in which the underlying loan security is located may result in significant changes in fair values and are among the primary causes of changes in value.

c) Inventory-

Inventory is valued at the lower of average cost and net realizable value for finished goods and the lower of average cost and replacement cost for raw materials.

d) Property, plant and equipment, and intangible assets-

Property, plant and equipment and intangible assets are recorded at cost. Property, plant and equipment and intangible assets with finite lives are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Company provides for amortization on fixed assets so as to write off the cost of the assets over their estimated useful lives as follows:

Building	- 40 years straight line
Equipment	- 5 - 15 years straight line and declining balance

Trademark rights are recorded at cost and are amortized using the straight-line method over 8½ years.

1. **Summary of significant accounting policies** (cont'd):

e) Financing costs-

The costs of obtaining bank and other debt financing are deferred and amortized on a straight line basis over the effective life of the debt to which they relate.

f) Revenue recognition-

Revenue is recognized when title passes to the customer and the collectability of proceeds is reasonably assured.

g) Translation of foreign currencies-

Monetary assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the date of the transaction.

h) Earnings per common share-

Basic earnings per share is calculated using the daily weighted average number of shares outstanding.

Diluted earnings per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all dilutive potential common shares been issued at the beginning of the year, or when the underlying options or convertible securities were granted or issued, if later. The treasury share method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options to acquire shares.

i) Income taxes-

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

2. **Accounts receivable:**

The Company has adopted credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

3. **Income taxes:**

The balance of future income taxes consists of losses available to be carried forward for tax purposes to the extent that they are likely to be realized, differences between undepreciated capital cost and net book value arising from the difference between the Company's amortization rates and those prescribed for income tax purposes, and amounts deductible for tax purposes in future periods. Should the actual amount or value of losses used differ from this estimate, any change will be accounted for in the period in which those amounts become known.

The statutory tax rate for the current year would be 35.2% (2005 - 35.6%). The statutory rate differs from the effective rate due to various non-deductible items.

Income taxes are affected by investment tax credits related to scientific research and experimental development. Canada Revenue Agency, in accordance with their normal policy for scientific research and experimental development expenditures, will be reviewing the Company's submission. Management has estimated the investment tax credits to be received to approximate the effect of past business transactions or events and to approximate the present status of the investment tax credits. It is possible that changes in future conditions could require changes in the recognized amounts for income taxes.

The Company has Manitoba manufacturing and processing tax credits available to offset Manitoba Provincial income taxes payable. The credits for which no benefit has been recorded expire as follows:

2007	$ 2,800
2008	$ 7,100
2009	$ 1,300
2010	$ 1,000
2014	$ 2,300
2015	$ 3,300
2016	$ 800

4. **Property, plant and equipment:**

	December 31			
	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 448,393	$	$ 448,393	$ -
Building	3,230,595	329,200	3,222,101	247,776
Equipment	4,183,476	2,409,012	4,142,753	2,254,184
	$ 7,862,464	$ 2,738,212	$ 7,813,247	$ 2,501,960
Net book value	$5,124,252		$5,311,287	

5. **Trademark rights:**

Trademark rights include costs incurred to acquire a competitor's trademark and customer lists. Trademark rights result from a $236,670 acquisition in July 2000.

	December 31	
	2006	2005
Trademark rights, beginning of year	$ 60,996	$ 81,328
Amortization	(20,332)	(20,332)
Trademark rights, end of year	$ 40,664	$ 60,996

6. **Bank indebtedness:**

The Company has combined credit facilities of $1,500,000 (2005 - $750,000) consisting of an undrawn operating line of credit for up to $500,000 (2005 - $750,000) with interest at prime plus 1.0% (2005 - 0.0% to 2.0%) and an undrawn non-revolving term facility for up to $1,000,000 (2005 - $nil) with interest at 6.67%. The undrawn operating line and non-revolving term facilities are secured by a general security agreement, assignment of life insurance on one officer, and fire insurance.

	December 31	
	2006	2005
Line of credit	$ -	$ (575,000)
Cash (bank balance, less outstanding cheques)	183,943	(142,035)
	$ 183,943	$ (717,035)

7. **Notes payable and long-term debt:**

	December 31 2006	December 31 2005
Mortgage on 200 Omand's Creek Blvd., Winnipeg, Manitoba, repayable in monthly instalments of $11,458 representing principal and interest calculated at 5.945%, due July 2016.	$ 1,786,626	$ -
Mortgage on 10 Chevigny Street, St. Albert, Alberta, repayable in monthly instalments of $11,458 representing principal and interest calculated at 5.945%, due July 2016.	1,786,626	-
Term loan, repayable in monthly instalments of $15,767 plus interest at prime plus 0.50% to 2.50%, due August, 2008.	$ -	$ 504,524
Mortgage, repayable in monthly instalments of $5,833 plus interest at prime plus 0.50% to 2.50%, due August 2008.	-	1,236,662
Mortgage, repayable in monthly instalments of $4,668 plus interest at prime plus 0.50% to 2.50%, due June 2009.	-	1,036,234
Subordinated debt, repayable in monthly installments of $9,000 plus interest at the floating base rate plus 3% plus a monthly administration fee of $1,700. Monthly principal payments increase by $1,000 every year until due, August 2007. Secured by a floating charge on all assets subject to prior charges in favour of existing secured lenders, assignment of insurance of $250,000 on one officer.	-	188,000
	3,573,252	2,965,420
Less: Current portion	(66,922)	(423,216)
Long-term debt	$ 3,506,330	$ 2,542,204

8. **Obligation under capital lease:**

The Company has an obligation under a capital lease for equipment. The lease expires in 2007 as follows:

2007	$ 788
Less: Current portion	788
Obligation under capital lease	$ -

9. **Share capital**:

	December 31 2006	December 31 2005
Authorized-		
100,000,000 common shares		
Issued-		
6,855,398 (2005 - 6,934,398) common shares	$ 1,276,821	$ 1,291,535

During the year, the Company purchased 79,000 shares for cancellation for consideration of $34,848. The shares had a stated value of $14,714, resulting in a charge to retained earnings of $20,134.

Subsequent to year end the Company purchased 8,500 shares to be cancelled for consideration of $3,855. The shares have a stated value of $1,583, and when cancelled will result in a charge to retained earnings of $2,272.

The Company does not have any outstanding dilutive instruments. Net earnings (loss) available to common shareholders is $(16,466) (2005 - $157,515). The weighted average common shares outstanding is 6,931,423 (2005 - 6,934,398).

10. **Foreign currency:**

The accounts noted below include amounts denominated in United States currency. The Canadian dollar equivalent is shown below:

	December 31 2006	December 31 2005
Cash	$ 17,593	$ 37,123
Accounts receivable	$ 18,664	$ 38,434
Accounts payable	$ 28,731	$ 80,632

The amount of foreign exchange losses included in the financial statements is $5,444 (2005 - gain of $10,005).

11. **Lease obligations:**

The Company has lease commitments as follows:

2007	$ 14,462
2008	14,462
2009	7,231
	$ 36,155

12. **Geographic information:**

	December 31 2006	December 31 2005
Sales-		
Canada	$ 9,086,311	$ 9,258,962
United States	1,307,483	1,416,627
	$ 10,393,794	$ 10,675,589

13. **Major customers:**

Three customers represent approximately $1,620,800, $1,404,900, and $1,230,400 of the Company's total revenue for 2006.

Three customers represent approximately $1,821,200, $1,483,700, and $1,210,100 of the Company's total revenue for 2005.

14. **Comparative figures:**

During the year the Company adopted the recommendations of the CICA handbook EIC-156, which requires cash considerations to customers, including cash discounts and rebates to be accounted for as a reduction of sales. Comparative figures have been restated to conform with the current year's presentation resulting in a reduction to prior year sales and cost of goods sold of $283,238.